

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 7155

BILL NUMBER: SB 176

DATE PREPARED: Apr 11, 2001

BILL AMENDED: Apr 10, 2001

SUBJECT: Local Rainy Day Funds; Local Government.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill does the following.

(A) Allows a political subdivision to establish a rainy day fund. Provides that a rainy day fund established by a political subdivision consists of the unused and unencumbered balance that is: (1) remaining in a fund consisting of amounts raised by a general or special tax levy on all the taxable property of the political subdivision; and (2) transferred by the political subdivision to the political subdivision's rainy day fund. Limits the amount that may be transferred to the rainy day fund to not more than 10% of the political subdivision's budget for that fiscal year.

(B) Provides a property tax deduction for certain real property that: (1) is located in an enterprise zone in Marion County; and (2) was allowed an obsolescence depreciation adjustment for property taxes assessed in the year before the owner purchased the property. Provides that the deduction is allowed only if the urban enterprise association for the enterprise zone in which the property is located approves the deduction. Provides that the deduction is equal to a specified percentage of the obsolescence depreciation adjustment that was allowed for property taxes assessed in the year before the owner purchased the property. Specifies that the deduction may be claimed for not more than four years.

(C) Authorizes Randolph County to impose an additional 0.25% county economic development income tax (CEDIT) rate for the purposes of financing, constructing, acquiring, renovating, and equipping the county courthouse and renovating the former county hospital for additional office space, educational facilities, nonsecure juvenile facilities, and other county functions. Provides that the additional rate may also be used for the repayment of bonds issued, or leases entered into, for those purposes. Provides that the county's CEDIT rate plus the county's county adjusted gross income tax (CAGIT) rate may not exceed 1.5% if the county has imposed the additional CEDIT rate authorized by this bill. Authorizes the county to adopt an ordinance that makes the CEDIT rate increase effective January 1, 2002.

(D) Permits a qualified taxing unit facing budgetary shortfalls because of a taxpayer's bankruptcy to apply for a loan from the Rainy Day Fund. Permits a qualified school corporation facing budgetary shortfalls because of a taxpayer's delinquency to apply for a loan from the Common School Fund. Permits a county auditor to keep separate on the tax duplicate the assessed value of property that is part of a bankruptcy estate and constitutes 9% of the assessed value of a taxing unit.

(E) Authorizes Evansville to use sales tax increment financing for certain purposes.

(F) Provides that notwithstanding any agreement entered into by the Department of Education and the Jay County School Corporation concerning the repayment of money that was advanced by the Department to replace money intercepted by the Treasurer of State in 2000, the school corporation is not required to make any repayments to the Department until one year after the date the money was advanced. Specifies that beginning three years after the date the money was advanced, the outstanding balance of the amount advanced by the Department of Education to the school corporation shall be repaid at an interest rate of 5% simple interest per year not later than 10 years after the date the money was advanced. Provides that these same provisions apply to North Miami Community Schools if money otherwise due to that school corporation is intercepted by the Treasurer of State and if the Department of Education advances money to replace the money intercepted by the treasurer.

(G) Voids the uniform compliance guideline published by the State Board of Accounts. Sets forth the procedures the State Board of Accounts must follow before criticizing an examined public entity that fails to observe a uniform compliance guideline concerning guaranteed energy savings contract.

Effective Date: (Amended) Upon passage; July 1, 2001; January 1, 2002.

Explanation of State Expenditures: (Revised)

(A) *Political Subdivision Establishment of Rainy Day Fund:* If a unit deposits money into the Local Rainy Day Fund that would otherwise revert to the unit's general fund, then the reduction in the tax levy that may have taken place in the following year would not take place. See: *Explanation of Local Revenues*.

The State pays a 20% property tax replacement credit on local General Fund levies. The credit is paid from the Property Tax Replacement Fund which is supplemented by the State General Fund. This proposal could increase the amount that the State pays for the credit. The State fiscal impact will be dependent on the actions of each individual unit and would be different for each unit under this proposal.

(B) *Obsolescence Deduction:* The State levies a one cent tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds.

(D) *Budgetary Shortfalls Because of a Taxpayer's Bankruptcy:* The bill would reduce the assessed valuation used in the school formula by the amount of the loss in assessed valuation due to the bankruptcy. The impact on the school formula would be to increase state tuition funding by about \$4.5 M annually.

(F) The Jay County School Corporation used a private holding company to finance a school bond. The school made annual payments to the holding company, but the funds were not forwarded to the bond holder. The bond holder used the state intercept law to recover the amount owed of \$1,665,814. The state advanced future state funds to the school to offset the recovery. Currently, Jay County School Corporation is required to repay the State Treasurer in 60 payments of \$27,763.57 beginning on January 15, 2001. The bill would delay the

repayment until December 2001. The reduction in state revenue due to the delay in the repayment of the advance of state funds for Jay County School Corporation would be about \$152,699 for FY 2001 and \$166,581 for FY 2002 and FY 2003.

The North Miami Community Schools Corporation may be in a similar situation. The potential amount of recovery is about \$300,000. The school made the payments to Center School Buildings, Inc., but the bond payments were not forwarded to the bond holder. Currently the State Treasurer has not withheld state funds under IC 20-5-4-10.

(G) *School Administrator and Uniform Compliance Guidelines and Guaranteed Energy Savings Contracts:* The State Board of Accounts (SBOA) would experience an increase in administrative expenses, including costs for paper and printing in order to comply with the bill, notification to each public entity involved regarding the time, date, and place of convening a public hearing, production of copies of the SBOA's proposed compliance guidelines, and production of the written minutes of the public hearing. The SBOA is already required, by statute, to distribute written copies of the final adopted uniform compliance guideline concerning guaranteed energy savings contracts.

Explanation of State Revenues: (Revised)

(D) *Rainy Day Fund Loan:* This bill permits a qualified taxing unit in East Chicago facing budgetary shortfalls because of a taxpayer's bankruptcy to apply for a loan from the Counter-Cyclical Revenue and Economic Stabilization Fund, (Rainy Day Fund). The bill limits the amount of the loan to \$16.2 M. (See table below in Local Revenue for specific taxing unit limits.) No interest is to be charged on the loan. The bill requires that the loan be repaid in 10 years. The balance of the Rainy Day Fund as of June 30, 2000, was \$539.9 M and is estimated to be \$567.4 M at the end of FY 2001.

Common School Fund Loan: The bill permits a qualified school corporation in Hendricks County facing budgetary shortfalls because of a taxpayer's bankruptcy to apply for a loan from the Common School Fund. The maximum amount of the loan is \$500,000. The loan must be repaid in 10 years. No interest shall be charged in the first three years, and there would be a 5% interest rate in any subsequent years. The state would forgo interest earnings on loans made from the Common School Fund for the first three years of the loan period.

The unobligated reserve of the Common School Fund at the end of FY 2000 was \$35.3 M, and the current available cash balance in the Fund as of April 2001 is \$40.2 M.

The anticipated budget shortfall for the Northwest Hendricks School Corporation caused by the default of the major taxpayer in CY 2001 is estimated at \$506,000.

(E) *Evansville Sales Tax Increment Financing:* By allowing the city of Evansville to use up to 50% of the net increment of sales tax revenue generated within a defined district each year, the State could experience a reduction in future sales tax collections from that area by a total of \$1 M. The overall impact of this provision on State revenue will be determined by local actions and the amount of increased sales tax revenue generated in the district each year. It is not known how much sales tax revenue will be collected and transferred annually.

This bill does not give the city of Evansville the authority to collect a sales tax. However, it does allow the city to receive 50% of any increase in sales tax revenue collected within a defined district that is *above* the

revenue generated in a base year, as specified by the Department of Revenue. The bill limits the total transfer of sales tax revenues to \$1 M.

Explanation of Local Expenditures: (Revised)

(C) *Randolph County CEDIT:* In accordance with this bill, revenue from the additional CEDIT rate increase of 0.25% would be used to pay the costs of financing, constructing, acquiring, renovating, and equipping the county courthouse and renovating the former county hospital for additional office space, educational facilities, nonsecure juvenile facilities, and other county functions. (Additional revenue would also be used for the repayment of bonds issued, or leases entered into for those purposes.)

The bill would allow Randolph County to impose an additional CEDIT rate only until the financing on constructing, acquiring, renovating, and equipping the county courthouse and renovating the former county hospital for additional office space, educational facilities, nonsecure juvenile facilities, and other county functions is completed. (Randolph County would then be required to reduce its CEDIT rate in accordance with current law.)

(G) *School Administrator and Uniform Compliance Guidelines and Guaranteed Energy Savings Contracts:* The voidance of the Uniform Compliance Guidelines on guaranteed energy savings contracts with school corporations could make the likelihood of the pursuit of monies as determined by a State Board of Accounts audit to be owed the school corporation by a vendor, less likely. If litigation is not pursued, there would be a savings of attorney and filing fees to the school corporation in question.

Explanation of Local Revenues: (Revised)

(A) *Political Subdivision Establishment of Rainy Day Fund:* A unit, in a given fiscal year, may only transfer not more than ten percent of the unit's total budget in that fiscal year to the rainy day fund. Under current law, an unused and unencumbered balance in any local unit fund, except township funds used for redemption of Poor Relief obligations, would be transferred to the general fund of that unit. One of two things generally happen:

- 1) The unit's levy for the next year is reduced by part of the cash-on-hand balance that would include the unused money; or
- 2) The unit may try to spend the money on whatever it legally can so that the money won't be lost.

Under this proposal, a unit would be allowed to keep a balance on hand in the Local Rainy Day fund without having to "spend it or lose it". The following is a breakdown of CY 2000 operating fund levies:

Unit Type	2000 Operating Levy
Counties	\$900,248,147
Townships	\$117,270,237
Cities & Towns	\$839,928,789
Schools	\$2,530,184,567
Libraries	\$155,747,832
Special Units	\$278,710,531
TOTAL	\$4,822,090,103

If a unit deposits money into the local Rainy Day fund that would otherwise revert to their general fund, then the reduction in the tax levy that may have taken place in the following year under a reversion would not take place. This could keep the tax rate from being kept as low as possible. However, if a unit deposits money into the local Rainy Day fund that would otherwise be spent on noncrucial items, the unit may be able to use this money during troubling financial times without bonding or seeking other levy increases, thereby saving tax dollars and keeping future rates down. Ultimately, the fiscal impact will be dependent on the actions of each individual unit and would be different for each unit under this proposal.

(B) *Obsolescence Deduction:* Current law requires State Tax Board real property assessment rules to allow for the determination of obsolescence. An obsolescence adjustment reduces the assessed value of real property. When a property that has been granted an obsolescence adjustment is rehabilitated, it will most likely lose its obsolescence adjustment.

This bill would allow the urban enterprise association in Marion County to approve a deduction against the assessed value of real property in an enterprise zone if the property has been sold and the former owner received an obsolescence adjustment. The deduction would be limited to four years and would be equal to the former obsolescence adjustment amount multiplied by a percentage. The percentage would be equal to 100% in the first year, 75% in the second year, 50% in the third year and 25% in the fourth year. The deduction would first be available for taxes paid in CY 2002.

With the approval of the urban enterprise association, this bill, in effect, would allow the obsolescence adjustment to be phased out rather than having the adjustment disappear all at once when the property is sold and rehabilitated.

When assessed value is added to the tax base, the tax rate is reduced thereby shifting part of the tax burden from all taxpayers to the taxpayer with the added valuation. If the added valuation of the real property is phased-in over a four-year period, then part of this shift would be delayed each year until after the fourth and final year of the deduction.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

(C) *Randolph County CEDIT*: Under current law, counties are allowed to impose CEDIT at a tax rate of up to 0.5% (with certain exceptions). Under this bill, Randolph County would be allowed to impose CEDIT at a tax rate of up to 0.75%.

The CY 2001 CEDIT certified distribution at a .25% rate for Randolph County is \$826,220. (As described below in the *Background* section, Randolph County does not currently adopt the maximum CEDIT rate of 0.5% due to its CAGIT rate of 1.0%.) An additional 0.25% CEDIT rate would equal approximately \$826,220 in additional revenue for the entire year.

Randolph County would be allowed to adopt the CEDIT rate increase after March 31, 2001, which would take effect January 1, 2002. If the County Council imposes the increase as described above, Randolph County would begin receiving revenues beginning in January of 2003. The projected collections for CY 2003 are not available at this time. (However, these amounts are assumed to be approximate to the CY 2001 projected collections.)

Background- For CY 2001, the CEDIT rate for Randolph County is currently .25%. Under current Indiana law (with few exceptions), counties that impose CAGIT and CEDIT may not exceed a combined CAGIT/CEDIT rate of 1.25%. Currently, Randolph County has a combined CAGIT/CEDIT rate of 1.25%.

Randolph County would be allowed to adopt a combined rate of 1.5% until required to reduce its CEDIT rate in accordance with the provisions of this bill.

(D) Under this provision, the county auditor would be permitted to keep separate the assessed value of a taxpayer that accounts for at least 9% of a taxing unit's assessed value and is or has been in bankruptcy. The valuation of such a taxpayer would not be used in the computation of tax rates. The rates would then be set high enough to generate the taxing units' certified levies without payment from the subject taxpayer.

Rainy Day Loan: Under current law, a local taxing unit could have applied for a no interest loan from the state's Rainy Day Fund (Counter-Cyclical Revenue and Economic Stabilization Fund) if a property tax payer has filed for bankruptcy protection and the taxing unit has experienced significant revenue shortfalls. The loan would have to have been repaid by January 1, 2000.

This provision would allow a taxing unit to apply for a loan with repayment within 10 years. The bill would also require an expectation of *continued* significant revenue shortfalls in order for the taxing unit to qualify. The bill also increases the maximum loan amount. The current and proposed maximum loan amounts are:

Unit Type	Current Max Loan	Proposed Max Loan
City	\$1,800,000	\$5,500,000
Sanitary District	\$600,000	\$1,900,000
Library District	\$225,000	\$800,000
School Corp.	\$2,200,000	\$8,000,000

The money used to repay the loans must come from a fund that is subject to the unit's maximum permissible

levy. The loan obligation may not be used as a reason to petition for an excessive property tax levy. Furthermore, payments of the delinquent tax, if any, are considered to be property taxes received and are subject to the 102% excess levy calculations. These stipulations mean that a unit cannot use a Debt Service Fund levy or exceed its maximum levy to make loan payments. It also means that if the bankrupt taxpayer makes any payments of delinquent tax and those payments cause total property tax receipts to surpass the certified tax levy by 2%, then collections over 102% of the levy would be deposited into the Levy Excess Fund which is used to offset the following year's tax levy. Additionally, the bill requires that if loan proceeds plus any tax payments from the subject taxpayer exceed \$16 M, then the amount over \$16 M would be deposited into the taxing units' Levy Excess Funds.

Common School Fund Loan: This bill would allow a school corporation in Hendricks County to apply for a loan from the state Common School Fund if a taxpayer that accounts for at least 9% of the school corporation's assessed value is delinquent on at least one property tax installment and the school corporation has and will continue to experience significant revenue shortfalls. The loan would have to be repaid within 10 years. The first three years would be interest free and there would be a 5% interest rate in any subsequent years. The loan amount would be limited to \$500,000.

The money used to repay the loans must come from a fund that is subject to the unit's maximum permissible levy. The loan obligation may not be used as a reason to petition for an excessive property tax levy. Furthermore, payments of the delinquent tax, if any, are considered to be property taxes received and are subject to the 102% excess levy calculations. These stipulations mean that a unit cannot use a Debt Service Fund levy or exceed its maximum levy to make loan payments. It also means that if the bankrupt taxpayer makes any payments of delinquent tax and those payments cause total property tax receipts to surpass the certified tax levy by 2%, then collections over 102% of the levy would be deposited into the Levy Excess Fund which is used to offset the following year's tax levy.

(E) Evansville Sales Tax Increment Financing: If Evansville were to utilize the incremental sales tax provisions in this bill, local revenue would be increased annually by an indeterminable amount. The bill limits the total amount of incremental sales tax revenue that the city would receive to \$1M. The bill specifies that any funds generated through this provision can only be used for property development and financing projects within the district.

(G) School Administrator and Uniform Compliance Guidelines and Guaranteed Energy Savings Contracts: Voiding of the Uniform Compliance Guidelines for guaranteed energy savings contracts could reduce the probability of school corporations pursuing litigation to recoup monies deemed by the State Board of Accounts to be owed to the school corporation in question by the vendor in question. See *Explanation of Local Expenditures*.

State Agencies Affected: State Board of Finance, State Board of Tax Commissioners; State Board of Accounts.

Local Agencies Affected: All local units and schools; City of Evansville; Jay County School Corporation; Marion County Auditor; North Miami Community Schools Corporation; Randolph County; Urban Enterprise Association.

Information Sources: Local Government Database, State Board of Tax Commissioners.